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Ref.: PSC/HvD/SS/SR

Dear Ms Fox,

Re: IPSASB Consultation Paper Reporting on the Long-Term Sustainability of Public Finances

- (1) FEE (the Federation of European Accountants) is pleased to submit its views on this Consultation Paper.
- (2) We strongly support IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's recent project to develop IFRS converged IPSASs or through wholly public sector specific IPSASs.
- (3) FEE has already provided comments on IPSASB's March 2008 consultation on a proposed project brief on Long-Term Fiscal Sustainability, noting that:
 - Developing this kind of information would inevitably range more widely than current financial reporting, particularly that which is within the main financial statements;
 - Appropriate reporting might need to reflect quite specific aspects of benefit programs, the specifics of taxation systems, and the nature of the dialogue between government and citizens;
 - Audit and verifiability considerations for this type of information might be expected to be rather different to standard assurances on financial statements.

- (4) We also indicated that the Board has set itself a very ambitious task. While we understand that some jurisdictions have already made progress in developing fiscal sustainability reporting, it remains to be seen whether standards or other internationally applicable guidance can be developed. The combination of estimation uncertainty with political and policy assumptions raises issues in connection with avoiding bias, and avoiding or managing the risks of an increase in the politicisation of financial reporting generally. The interaction and read across between long-term sustainability reporting and statistical national accounts also needs to be considered.

General comments

- (5) Overall we consider that the Consultation Paper has mapped out a practical basis on which to develop guidance. We wish to make some observations in relation to the nature of the guidance.
- (6) We believe the final guidance should mandate the reporting on long-term sustainability in that each entity concerned is obliged to report on long-term sustainability. However the way and contents of the reporting should at least at this early stage of reporting on long-term sustainability not be required. We welcome that the IPSASB sets the principles for such reporting as set out in the preliminary view paragraph 4 but the guidance on what and how to report should not be mandatory at this stage in our view.
- (7) Our only other general comment is to note that the examples of long-term fiscal sustainability reporting from different jurisdictions serve different purposes, and have a variety of different approaches to time horizon, as discussed in sections 6 and 7. The emphasis is not on predicting the future, but on providing a view of the future consequences of past actions and existing policy commitments, taking a wider view of commitments than normally recognised in financial statements. The time horizons seem to be principally chosen to avoid missing important future consequences. This is rather a specialised view of 'long term' reporting and in moving forward to an exposure draft it would be helpful if there were more clarity and explanation on this to help readers understand the nature, purpose and limitations of this reporting as well as the envisaged frequency of reporting.

Specific comments on the Preliminary Views

Preliminary View 1

The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008

- (8) FEE agrees with what we believe to be the intention of the above statement, but we are not sure that we agree with all of the implications of the Preliminary View as drafted.

- (9) FEE agrees that an awareness of fiscal sustainability issues is important context which is needed to gain a full understanding of the financial statements and other financial reporting. Its relevance is clear, particularly at whole of government level and at other levels of government which have the capacity to levy taxes and to set tax rates with a view to funding future expenditures.
- (10) We support the requirement that this type of information should be provided. We stress that including this information in financial reporting is clearly beneficial and extremely desirable. However at this stage the contents and way of reporting should not be mandatory although it could be encouraged by the non-mandatory guidance. We also believe that this information might be particularly beneficial in circumstances such as the current global financial crisis.

Preliminary View 2

IPSASB guidance should recommend that long-term fiscal sustainability information in GPFRs be presented either through:

- *Additional statements providing details of projections; or*
- *Summarized projections in narrative reporting*

- (11) We agree that Reporting Models One and Two as outlined above are sensible starting points for presenting fiscal sustainability information in General Purpose Financial Reporting. While in practice some jurisdictions are likely to continue to prepare separate long-term fiscal sustainability reports, and cross-references and summarised information relating to those reports might often be helpful to readers of GPFRs, we would see practical problems in developing guidance based on Model Three, which would be dependent on material not prepared in line with IPSASB guidance, and which might not always be sufficiently aligned with the information in the GPFRs.
- (12) Furthermore, we suggest that in moving forward the Board should consider developing a preferred model based which could include minimum requirements for disclosure in financial statements, quantitative information in narrative reporting, and descriptive/explanatory information in narrative reporting. While we accept and support the need for flexibility, having a preferred model would provide a useful template and assist comparability of reporting.

Preliminary View 3

IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government

- (13) FEE agrees that IPSASB guidance should be based on the concept of the reporting entity.

- (14) We agree that fiscal sustainability issues can arise at all levels, although we are not sure that it will always add value to report in situations where one tier of government is substantially financed by a higher tier. We agree that the principal focus should be on consolidated reports, rather than for individual entities which may, for example, have no powers to raise or set taxes.

Preliminary View 4

IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on

- (a) their relevance to the entity,*
- (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and*
- (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed*

- (15) FEE agrees with these criteria for the selection of indicators by public sector entities which are reporting on long-term fiscal sustainability under IPSASB recommended guidance.

Preliminary View 5

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;*
- The basis on which projections of inflows from taxation and other material revenue sources have been made;*
- Any other key assumptions underpinning long-term fiscal sustainability projections; and*
- Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework*

- (16) FEE agrees with the disclosure of the above contextual information by public sector entities which are reporting on long-term fiscal sustainability under IPSASB recommended guidance.

Preliminary View 6

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- Time horizons for fiscal sustainability projections presented or discussed in the GPFs as well as the reason for modifying time horizons and any published plans to modify those horizons;*
- Discount rates, together with the reason for their selection;*
- Results of key sensitivity analyses; and*
- Steps taken to ensure that projections are reliable*

- (17) FEE agrees that it is important that the above information on time horizons and related modelling parameters is disclosed by entities reporting on long-term fiscal sustainability under IPSASB recommended guidance.

Preliminary View 7

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that

- (a) the underlying projections should have been prepared or updated within five years of the reporting date, and*
- (b) the date of preparation or update should be disclosed*

- (18) FEE agrees with the disclosure of the above information on currency and timeliness of reporting.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,



Hans van Damme
President